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Political and Financial Background of the French Elections

SINCE the Poincaré Cabinet was formed on July 23, 1926, France has enjoyed a period of relative political stability, during which financial recovery has been made possible by public confidence in the ability of the head of the government to carry out a determined program.

During the past few weeks, however, political questions have again occupied the attention of the French electorate. The quadrennial election for the Chamber of Deputies will take place, and this may radically change the composition of the Chamber, in which at present no single party has a majority, and in which the largest party, numerically, the Radical Socialist, does not have charge of and is even opposed to the government. Competent observers point out that the economic future of France for several years to come may hinge on the results of the elections to be held on April 22 and 29 of this year. The principal question is: Will the present cabinet, led by M. Poincaré, but including leaders of political groups that are inherently opposed to him, remain in power to carry the task of economic restoration through to its ultimate conclusion—namely,

the stabilization of the franc? If this government does not secure a majority in the French Parliament, what group is likely to form the new government and what policies, economic and political, will be pursued?

Party government in France has always been marked by a large number of political groups and consequent cabinet instability. Upon the outbreak of war in 1914 dissension was buried, however, and all the parties associated themselves in a Sacred Union which even included the Unified Socialists. The latter party withdrew from the Union in 1918.¹

In the 1919 elections, the moderate and conservative Republicans united in a National Bloc, which was aimed against Bolshevism. The Bloc was successful in winning 366 seats while the Radicals and Socialists won only 244 seats. This defeat threw the parties of the Left together; and forming the *Cartel des Gauches*, they won the elections of 1924 and made M. Herriot Prime Minister. From this time to April,

1. Cf. R. L. Buell, *Contemporary French Politics*, Chap. III.

1925 the *Cartel des Gauches* remained in power. Its rule was marked by a policy of liberal gestures, such as the transfer of the ashes of the famous Socialist leader, Jean Jaurès, who had been assassinated in 1915, to the Pantheon; by an amnesty to almost all political offenders during the World War; and by forcing President Millerand to retire from office, because of his efforts on behalf of the National *Bloc*. But when the *Cartel des Gauches* attempted to deal with the monetary question, it encountered difficulties. M. Herriot was finally voted out in April, 1925, and was succeeded by M. Painlevé, who still, however, relied upon the support of the Left. Whenever the Left attempted to apply extreme financial solutions, it lost moderate members without which it could not maintain a majority.²

M. Caillaux's budget was voted in July, 1925, over the heads of the more advanced Radical Socialists, by a majority composed of the moderate radicals, Centre and Right.³

POINCARÉ CABINET FORMED TO PREVENT FINANCIAL DISASTER

For a time a curious situation existed in which a Radical cabinet was kept in office by the votes of the Centre and Right. The conservative elements soon tired of the situation, however, and the crisis of July, 1926 occurred. The franc had fallen as low as 240 to the pound and the *Cartel des Gauches* had lost the confidence of the country. Nevertheless, the Centre and the Right did not have enough members in the Chamber to govern by themselves. Another party truce became necessary—another Sacred Union—in which the main object was to save the franc and prevent financial disaster. It was for this reason that the Poincaré cabinet was formed. His cabinet contained M. Briand, a Socialist and an exponent of conciliation, as Minister of Foreign Affairs.⁴

A member of the Democratic Republican Alliance, a powerful moderate group, M. Raymond Poincaré was able to form a National Union of the Conservatives and the

Socialists. At this time the financial crisis had become so serious that many cried out for a dictator as the only relief from an undisciplined Parliament. Others thought that Poincaré would establish such a dictatorship. Later events proved that this was untrue. M. Poincaré secured authorization from Parliament for his reforms, and he governed with a parliamentary majority. He himself does not, apparently, relish dictatorship. In a speech at Bordeaux, March 25, 1928, he declared:

"Chief among the principles on which the government has been formed is the maintenance of the Republican Constitution and the parliamentary régime. To speak truly, French democracy is too deep rooted to expose these principles to the least disturbance. Undoubtedly, many modern peoples, carried in periodic oscillations from the abuse of authority to the excess of liberty, still look restlessly for a fixed point where their alternating aspirations may be conciliated; and we see around us, especially in monarchist countries, attempts to set up new systems of government. But for more than fifty years France has tested all the methods of revolution and all the forms of power; France has found a peaceful shelter in a Constitution which at least has the merit that it works and which gave proof, especially during the war, of its soundness. Public opinion is too wise to demand its revision." It could be improved and Parliament in 1926 had made reforms, limiting the length of speeches. Other steps need to be taken. But M. Poincaré had never been among those "who sought progress in silencing the national representation and in extinguishing public liberties."⁵

The party truce, which M. Poincaré established in July, 1926, existed until the withdrawal of the majority of the Radical Socialists in October, 1927; and the question before the forthcoming elections is whether M. Poincaré and his policies can obtain a majority without the support of the Left. The major issue in the campaign is that of finance. Foreign policy, it seems, plays a subordinate role. Except for extremists, political parties are agreed upon the principles of reparations and security, and support of the League of Nations. While the conservative parties favor a more liberal attitude toward the Church than the radicals, and while the French Government has made a number of concessions to the

2. Cf. p. 42.

3. André Siegfried, "The Psychology of French Political Parties," *Journal of the Royal Institute of International Affairs*, January, 1928, p. 26.

4. M. Briand belongs to neither the Unified Socialist nor the Radical Socialist party, but to the "French Socialist Party" faction. Cf. p. 39.

5. *Le Temps*, March 26, 1928.

Vatican within the last few years, it does not seem that the religious issue will enter into the elections.

POLITICAL PARTIES OF THE FRENCH CHAMBER

The party composition of the Chamber, as elected May 11, 1924, is as follows:^{5a}

LOWER CHAMBER (Chamber of Deputies)	
Speaker:	Fernand Bouisson (Socialist)
<i>Groups</i>	<i>Repre-</i> <i>sentation</i>
Radical and Radical Socialist	136
Republican-Democratic Union	100
Socialist	95
Republican Socialist	40
Radical Left	39
Republican-Democratic Left	34
Left Republicans	34
Communist	28
Democratic	14
Independent Left	13
Belonging to no group	32
 Total	565

THE PARTIES OF THE LEFT

At the extreme Left of the Chamber are the Communists, who take their orders from the Komintern of the Third International, which, with its center in Moscow, is closely related to the constituted Soviet authority. Numbering only twenty-eight members in the Chamber of Deputies at present, this party has always been counted upon to oppose any government that may be formed. Because of its propaganda it has often succeeded in causing disturbances and unrest in various parts of the country.

The Communists advocate revolution, and in foreign affairs they are anti-militaristic and anti-colonial. The parliamentary leaders of the Communists are Marcel Cachin and M. Doriot. M. Cachin has recently been described as a "doctrinaire ex-schoolmaster, who looks rather like a working-man in spectacles."⁶

Next to the Communists in political doctrines stand the Socialists, led by Léon

5a. Cf. *Political Handbook of the World*, Council of Foreign Relations, 1928. p. 65.

6. "Parties in France," *The Times* (London). November 2, 1927, p. 13.

Blum, perhaps M. Poincaré's most dangerous opponent. Other prominent Socialists are Paul Boncour, Fernand Bouisson, the speaker of the Chamber of Deputies, Pierre Renaudel and Jean Longuet.^{6a}

This group, with ninety-five deputies in the Chamber, has frequently aroused a fear for the future stability of France among the Right parties. The more conservative elements have feared that Blum, if he came into power, would be a Kerensky, and that a Socialist government would be a prelude to Communism and financial anarchy. On the other hand the Socialists have been roundly criticized by the Polit-Bureau of the Communist party. In the view of that organ of the Third International in France, the Socialists are becoming "conservative." They turned down the proposal of the Communists for a "common struggle." It is alleged that, far from concerning themselves with the interests of the workers, the Socialists, by abandoning their former programs, have been forced to compromise and collaborate with the bourgeoisie. Until recently they demanded the capital levy, but they have now given this up in favor of a vague levy on wealth, without fixing the rate or the degree of graduation. They retain their plan for nationalization of petroleum, the mines, and insurance, but only after legal purchase. Nationalization of banks has been abandoned. They no longer demand general disarmament. In general, according to the Communists, the Socialists participate in saving the capitalist structure.⁷

Less partisan observers, while admitting that this criticism is true in part, point out that what the Socialists stand for is similar to though less drastic than the Communist program.

RADICAL SOCIALIST PARTY THE MOST IMPORTANT

Next to the Socialists stand the powerful Radical Socialists. This group has been more accurately styled conservative Socialist —it is somewhat similar to the Labor and Liberal parties in England. Numerically the most important of all the French political parties, the Radical Socialists, supported by

6a. The latter is not now a member of parliament.

7. *L'Humanité*, organ of the Communist Party in France, January 1, 1928.

the Socialists, ruled France from May, 1924 to the advent of the Poincaré Cabinet. Composed of many elements that have little or nothing in common, it is difficult to define the principles of this party. In 1926 it consented to support a National Union Cabinet under Poincaré, but only when public feeling was at the end of its patience. Since that time the party has been torn asunder by the question of whether to continue to support the Poincaré Cabinet.

RADICAL SOCIALIST SPLIT OF OCTOBER, 1927

At the annual Congress of the Radical Socialist party, held in October, 1927, a definite split occurred. The majority adopted a resolution favoring withdrawal from the National Union, while a minority, led by Franklin-Bouillon, favored continuing support of the Poincaré government. The majority motion of the Congress of the party declared that:

"...whereas, notwithstanding the formation of a Cabinet of National Union, the parties of reaction and of conservatism have not ceased to direct the most violent attacks against the Republican Radical Socialists;

"whereas, any electoral agreement with them would result in a policy either of inertia or of deception, of which the party would be the first victim, and that the formation of such a coalition would render impossible any work of reform or of European conciliation;

"whereas, national union, if rendered necessary by grave foreign events or by the momentary impossibility of constituting a homogeneous majority in parliament, could only be a temporary form of parliamentary life, and that the conflict of ideas is a necessity of political life in a Republican régime,

"Condemns any policy of confusion."

It adopted a program protesting against taxes imposing too heavy a burden upon laboring classes, and favored "a policy of amortization which demands of the present generation, already heavily burdened, only the indispensable sacrifices which do not injure the economic activity of the country."

In foreign affairs the party demands the resurrection of the Geneva Protocol, and progressive return to freedom of commerce and the economic solidarity of the people.⁸

The Congress also adopted a motion placing a program of international peace at the head of the platform and protesting against a policy of nationalist "bragging."

Following this Congress, Franklin-Bouillon withdrew from the Radical Socialist party and formed the Radical Union League, which stands for the maintenance of a National Union Cabinet to carry out three cardinal principles: financial restoration, preparedness, and defense against Communism.

While most observers believe that economic questions are likely to be uppermost in the forthcoming election, the Radical Socialist group, in view of the financial crisis that developed when it was in power, is attempting to divert interest from financial to foreign policy—"a policy of peace, a policy of Geneva and Locarno." The Radical Socialist party is the largest single political group in the country, and has occupied this distinction for many years. In the words of one Radical Socialist Deputy, "it would be impossible to govern our country without the assistance of the Radical Socialists. If they were placed in a minority and if their counsels were not decisive, nationalism would resume its audacity, we should return to the period of the aggressive theses of the imperialists, we should lose this pacific rôle which brings us the affection of all true world citizens. Without radicalism what would become of the policy of Aristide Briand?"⁹

In the field of foreign policy, the French voter, according to the Radicals, must choose between this concept and the frankly nationalistic policy once advocated by M. Poincaré.

So far as economic questions are concerned, the Radical Socialists are attempting to lay their failure of three years ago at the doors of their predecessors. The present head of the party, M. Daladier, has stated the case thus:

"From whom did the Radical Socialists—who tried to govern the country from May 11, 1924, without having a stable and solid majority, (since they numbered only 270 out of a total of 584 deputies)—inherit a balance of bankruptcy and ruin? From whom did the *Cartel des Gauches* (Left Group) receive a heritage of

⁸. *Le Temps*, October 30, 1927, p. 8.

⁹. *Dépeche Dauphinoise*, January 3, 1928.

· 300,000 millions in debts, of which 92,000 millions was a floating debt? From whom did it receive a budgetary deficit of 6,000 millions? How did the state manage to live from 1919 to 1924 if not by systematic loans and by occult advances from the large banks?"¹⁰

But all these questions M. Poincaré answered later in a manner satisfactory to his friends at least.

Besides M. Daladier, prominent leaders in the Radical Socialist party are Joseph Caillaux, Henry Berenger, Henri de Jouvenel, Albert Sarraut, and Edouard Herriot.

THE REPUBLICAN AND FRENCH SOCIALIST PARTIES

Less radical than the Radical Socialists are the Republican Socialist and French Socialist parties, which combined have forty-one representatives in the Chamber. The best known member of the Republican Socialist party is possibly M. Painlevé, formerly Premier and at present Minister of War. The French Socialist party consists principally of followers of M. Briand, ten times Premier of France and now Minister of Foreign Affairs. It is not clear why this group should qualify the name "Socialist" by the word "French" unless it was considered that the members of the main Socialist party, from which this group separated in 1919, were pursuing aims not synonomous with French interests. In any event, M. Briand appears strictly to eschew the doctrine of class struggle.

The General Labor Confederation of France, while not actually a party, may be grouped with the parties of the Left Wing. This body is more radical than the American Federation of Labor. Its program lies not far from that of the Socialist group, though at present a conflict between the two is in progress. The minimum demands of the Confederation for the coming elections are not alarming to the conservatives. It demands monetary stabilization—on this score there will hardly be any opposition—the vote of a law on social insurance, vacations with pay, increase of the power of the National Economic Council, compulsory arbitration of labor disputes, and a general industrial reorganization intended to increase salaries

and reduce prices at the same time. In general such principles might be approved by M. Poincaré as well as by Léon Blum.

These parties, with the exception of the followers of M. Franklin-Bouillon, represent the left side of the political arch. They are commonly known as the Left *Bloc*. The numerous groups on the right side may be mentioned briefly. With the exception of the Royalists, these parties are usually known as the National *Bloc*.

THE PARTIES OF THE RIGHT OR NATIONAL BLOC

The largest of the Right parties numerically is the Republican-Democratic Union, which has 104 members in the Chamber, and thus ranks next to the Radical Socialists in size. This party includes the big industrialists. Among its leaders is Louis Marin, Minister of Pensions, and an opponent of the debt agreements. Another important group, numbering only thirty-five but ably led by Pierre Etienne Flandin, is the Left Republican-Democratic party. Less important groups are the Left Radical, Left Republican, Democratic, and Left Independent. Finally, there is a group claiming no affiliation, composed of seven members who are distinctly conservative and two Royalists.

So far as consistent opposition to any government is concerned, the Royalists, who have only two representatives in the Chamber, but who have a wide following in the country, are similar to the Communists.

While there are three Royalist lines in France—the Bourbon, Napoleonic and Orleanist lines—only the Orleanists are well organized, through the *Ligue d'Action Française*. In 1926, Philippe, Duc d'Orleans and pretender to the throne, died, and his claims have passed to the Duc de Guise, the heir of both the Bourbon and the Orleanist lines. Banished from France, the Duc de Guise now lives in Belgium.

The Orleanists have usually been associated with the Catholic element in France, and their program gives to the Catholic Church a "manifest privilege over other confessions." But, largely because of his insistence upon the supremacy of the State and his extreme nationalism, the *Action*

10. *La Parole*, January 10, 1928.

Française leader, Charles Maurras, has come into open conflict with the Vatican.

On January 2, 1927, the Supreme Congregation of the Holy Office at Rome placed certain of his writings, as well as the newspaper, *Action Française*, on the index. On the same day the permanent commission of the Assembly of Cardinals and Archbishops of France issued a declaration prohibiting all Catholics from making any contributions or from giving any other support to the *Action Française*, or from reading the journal published under that name.¹¹

In March, 1928, Cardinal Dubois went to the extreme length of issuing an ordinance prohibiting priests of the church to marry or give the sacrament to followers of the *Action Française*.¹²

Presumably the withdrawal of Catholic support will greatly weaken the Orleanist party.

POINCARÉ'S FRAGILE MAJORITY IN THE CHAMBER

Such is the party alignment. In the Chamber of Deputies, with a membership of 543¹³, a majority of 272 is actually necessary. One of the last votes on party alignment took place in connection with a motion in regard to financial policy presented by the Radical Socialist party on February 9, 1928. The motion, which was in a sense directed against the government, received 160 votes while it was opposed by 258 votes—or less than an absolute majority. One hundred and fourteen members abstained from voting altogether. Of these, eight were Radical Socialists, seventy-one were Socialists, and eight were Republican Socialists. Had this radical element joined in the vote against the government, the result would have been 258 to 247. Many deputies abstained from voting and others voted with the government, not wishing to bring about a change of cabinet before the election. As these figures show, the existence of the Poincaré government depends upon a very slight margin. If the forthcoming elections are

decisive one way or another, the task of forming the next government will be simplified. But if the new Chamber retains its present complexion, the task would appear to be difficult.

For the issues in the coming election, for the position of the different parties, for information about the present situation in general, the debate in the Chamber of Deputies from January 24 to February 9, 1928 on the financial record of the Poincaré Cabinet was significant. This debate revealed both the temper of the parties and the facts about certain aspects of the financial condition of France.

FINANCIAL PROGRAMS OF THE PARTIES

The Socialist group, which had supported the government from 1924 to 1926, blamed everything that had occurred upon "the organization of capitalist society." The financial crisis had resulted not from the policy of any political party but from a "policy of fiscal desertion." The resistance of capital had prevented a "contribution on acquired fortune," or the capital levy,—the key doctrine of the Socialist party—whose realization, according to revolutionary philosophy, will alone remedy financial injustice.

The Radical Socialists, as represented by M. Lamoureux, spoke of the results secured by the National Union Cabinet as purely the work of Parliament. Given this point of view, M. Poincaré could not take any credit for what had been accomplished. Still the work done was by no means perfect. It would remain for the Radical Socialist party to perfect the system of taxation, reducing certain taxes but increasing the rate on large incomes.

The policy of the party, as stated in the order of the day proposed at the end of the debate on February 9, 1928, was worded thus:

"The Chamber, resolved to realize with the briefest possible delay the legal stabilization of money;

"Resolved to continue the work of improvement, happily followed by the consolidations undertaken as well as the amortization of the Debt, in a measure compatible with the taxpaying capacity of the nation;

11. The documents are published in *L'Europe Nouvelle*, February 26, 1927, p. 275.

12. *Le Temps*, March 30, 1928.

(13) As of January, 1928.

"But decided to connect narrowly the payment of inter-Allied debts with the execution of the Dawes plan;

"Convinced, on the other hand, that the work of financial reparation can only be well founded on the basis of a just fiscal system;

"Expressing its desire better to adapt taxation to individual capacity, (1) by a better distribution of the progressive tax on incomes the charges of which . . . strike too heavily the laboring classes of the country; (2) by obliging acquired wealth, within the scope of the general income tax and inheritance taxes, to furnish the resources necessary to the execution of a program of economic and social renovation; (3) by maintaining and reorganizing the State monopolies, while establishing a control over the great monopolies already in existence; (4) by prosecuting and suppressing fraud unmercifully.

"Passes to the order of the day."¹⁴

This program presents few differences from that of the Socialists. Both parties stand for stabilization and suppression of fiscal fraud. The only difference of importance is that the Radical Socialists do not propose "a personal contribution, calculated and levied at a progressive rate, on acquired fortunes with reductions at the bottom." If this similarity of platforms is maintained until the second election occurs on April 22, it is generally expected that the Socialists and Radical Socialists will again act as one against the candidates of the more conservative parties.

At the close of the financial debate, the government favored the order of the day proposed by the Left Radical group (one of its present supporters) which was worded thus:

"The Chamber, convinced of the necessity to continue without faltering a policy of monetary and financial restoration;

"Considering that the dominant obligation to maintain budgetary equilibrium and gradually to redeem the public debt is not irreconcilable either with the possibility to prepare reductions by economies or with the progressive realization of fiscal reforms destined to assure a more equitable distribution of taxes to aid the less fortunate taxpayers and to decrease the burdens which are laid upon workers;

"Confident in the government to continue the work begun and to better it in a spirit of justice. . . .

"Passes to the order of the day."¹⁵

(14) The Chamber declined to act on this motion by a vote of 258 to 160. Cf. p. 40.

(15) *Le Temps*, February 11, 1928.

This resolution, approved by the Chamber by a vote of 370 to 131, was really a brief statement of the financial program of the Poincaré Cabinet.

Voters in the forthcoming elections must consider whether or not financial and economic progress under the Poincaré régime has been real, and whether the cost to the individual taxpayer has been excessive.

NEW ELECTION SYSTEM INTRODUCED IN 1927

In France two methods of electing deputies have been followed during the history of the Republic. The first is the *scrutin de liste*, or the election of all the deputies from a department on one ticket; the second is the *scrutin d'arrondissement* (the *arrondissement* corresponds to an American county) or the use of single electoral districts. In 1919 an electoral law was passed providing for the *scrutin de liste* and for a modified system of proportional representation. Each department was entitled to one deputy for every 75,000 inhabitants and candidates grouped themselves on party lists, so that if, for example, a department was entitled to six seats, each party could have six names on its list and each person would vote for six candidates. Any candidate who received an absolute majority of the ballots was elected, but to any seats not thus filled the principle of proportional representation was applied.¹⁶

The adoption of this law worked, according to some French writers,¹⁷ to the advantage of parties with a compact organization, *i. e.*, parties capable of obtaining an absolute majority. The Radical Socialists expressed vigorous opposition to the system, with the result that in July, 1927 the Parliament repealed the 1919 law with its provision for a partial form of Proportional Representation, despite the original opposition of M. Marin, Minister of Pensions, and M. Poin-

(16) An electoral quotient was computed by dividing the number of ballots cast by the number of seats. Thus if 60,000 ballots were cast and there were six seats, the electoral quotient would be 10,000. The number of seats to which each party was entitled was determined by the average vote of its candidates divided by the electoral quotient; so that if the six candidates on List A poll an average of 30,000 votes apiece the party would obtain three seats.

(17) Bonnet, *La Réforme Electorale*. (Revue Politique et Parlementaire, (1922) Vol. III, p. 221.)

caré, both of whom advocated the principle of integral Proportional Representation.

The new law fixes the number of deputies in the fourteenth legislature at 612 and provides that they shall be elected by single-member constituencies, the *scrutin d'arrondissement*, and by absolute majority. In

case a majority is not obtained, a second election will be held in the *arrondissement* the week following.¹⁸

It is believed that the return to the single-member constituency will work to the benefit of the Radical Socialist party, because it is the largest single party in the country.¹⁹

THE FINANCIAL POLICIES OF THE POINCARE GOVERNMENT

It has been said that the norms of financial stability—and prosperity—are sound public finance and a stable currency. Public finance, like private finance, is not in a healthy state when the budget is not balanced. Currency becomes unstable when it is rendered impure by inflation and short-term loans. In the beginning of 1926 it was precisely from currency instability, which had its origin in a budgetary deficit, in the abuse of short-term loans, and in inflation, that the French Government found itself in desperate straits. The franc was in danger of following the vertiginous slide of the mark unless the evils were remedied. The treatment of financial ills began only after an operation that sundered party doctrines, after all groups got together to remedy evils before public opinion should lose its self-control. The record of the case is significant and necessary for an understanding of developments that are likely to follow.

RECONSTRUCTION DEFICIT FOLLOWING THE WAR

Following the close of the World War, the French Government was confronted with the problem of reconstructing the devastated regions, on the one hand, and of bringing about the fiscal rehabilitation of the administration on the other. It was natural, perhaps, that it should have addressed itself first to the reconstruction problem (which is now almost complete) and it was equally natural that the government should finance this reconstruction, not out of current taxation, but from the proceeds of a special recoverable budget to be paid at some future date from the reparations account. The prospect of receiving reparations for this

purpose became, however, more and more remote. Reconstruction and other costs produced a yearly deficit—a deficit which in fact had existed since 1914—and an increase in the floating debt. From 1914 to 1926 a total cumulative deficit of 315,900 million paper francs was incurred. Worst of all, from the popular standpoint, the franc continued to fall, until in the summer of 1926 it reached 248 francs per pound.

The Committee of Experts, appointed to inquire into the situation in July, 1926, reported in the following terms:

"What is the cause of the instability of the franc? First of all, it is the frightful destruction of wealth as a result of the war, the huge expenditures for the defense of the invaded nation, the necessity for the country to take up alone the reconstruction of its devastated provinces.

"Then, because of the fact that the reparations payments due to us from Germany, which have already been fixed, will hardly cover our debts to the United States and Great Britain, it is doubtful if a large balance in our favor will result from their settlements.

"Finally, the fall of the franc is caused by a bad financial policy. After abusing the appeals for credit, and, by that abuse, destroying confidence, new fears have been aroused by various menaces to capital."

The Committee declared that the fall of the franc "has caused profound ravages in national economy. . . . The French work and produce," but, because of inflation, "get poorer unconsciously." The Committee believed that, while the sudden deflation of the franc would work hardship, its stabilization should be brought about as soon as possible. In order to achieve this end, the Committee made various recommendations in regard to economies in administration, increasing especially indirect taxation and other measures. Since July, 1926, the Poincaré government has attempted to attain the goal set by the Committee.

(18) Law of July 21, 1927. English translation in *European Economic and Political Survey*, July 30, 1927, p. 734.

(19) Cf. A. Géraud ("Pertinax"). *The Coming French Elections*. (Foreign Affairs, January, 1928, p. 217.)

DIRECT TAXES UNDER THE POINCARÉ GOVERNMENT

One of the first acts of the Poincaré government was to induce Parliament to pass legislation in August, 1926 increasing taxes to the extent of more than 9,300,000 francs a year. For the year 1928 the 40,000,000 inhabitants of the country will pay into the treasury a total of about 48,000 million francs, not including city and department taxes. The direct taxes at present are as follows:

1. *"Commercial Returns" tax.* Like all categories of taxation in France, the Returns tax is established on a progressive scale, as follows:

Returns	Tax
Frs. 800 (\$32)	Frs. 22.50 (\$.92)
" 3,001- 5,000 (\$150-200)	300.00 (\$12)
" 10,001-15,000 (\$400-600)	1,500.00 (\$60)
" 30,001-35,000 (\$1200-1400) "	4,500.00 (\$180)
" 45,001-50,000 (\$1800-2000) "	6,750.00 (\$270)

For amounts above 50,000 francs, the tax is calculated at the rate of 15 per cent of the taxable amount.

Reductions are allowed in case of dependents, ranging from 7.50 per cent in the case of one dependent to 15 per cent for two, and 30 per cent for three, with an increase of 15 per cent for each additional dependent.

A special Returns tax, which comes in the same category, is applicable only in cases where income exceeds 1,000,000 francs (\$40,000), in which case, on amounts up to \$80,000, the tax is calculated at the rate of 1.20 per 1,000. The progression is as follows for the higher amounts:

SPECIAL RETURNS TAX

Returns	Rate of Taxation
\$ 80,000- - - - \$ 400,000	2.40 per 1,000
400,000- - - - 4,000,000	3.60 " "
4,000,000- - - - 8,000,000	4.80 " "
Amounts above 8,000,000	6.00 " "

2. *Property tax on land and buildings.* This tax is based on the rate of 12 per cent of the assessed valuation. The latter is arrived at after an initial deduction from the total returns of the sum of 2,500 francs, with further deductions on property of higher value—viz., three-fourths of the portion comprised between 2,500 and 4,000 francs and one-half of the portion comprised between 4,000 and 8,000 francs.

3. *Tax on salaries, pensions, life annuities.*

The minimum salary subject to taxation in France under the existing schedules is 7,000 francs (\$280) a year. An additional exemption of 3,000 francs is allowed to married men whose wives do not earn money, as well as an exemption of 2,000 francs for each child or dependent. Thus a married man with three dependents is allowed a non-taxable salary of 16,000 francs (\$640), anything above this sum being subject to taxation.

Here again there is a progressive scale of taxation. A uniform non-taxable allowance of 7,000 francs is granted, with the following deductions from the total salary, pensions, and life annuities: Three-fourths of the portion comprised between 7,000 and 10,000 francs; one-half of the portion comprised between 10,000 and 20,000 francs; one-quarter of the portion comprised between 20,000 and 40,000 francs.

Thus on a taxable amount of:

Frs. 10,000 (\$ 400) there is due Frs. 90 (\$3.60)
" 20,000 (\$ 800) " " " 660 (\$26.40)
" 30,000 (\$1200) " " " 1560 (\$62.40)
" 40,000 (\$1600) " " " 2490 (\$99.60)
" 50,000 (\$2000) " " " 3690 (\$147.60)

4. *Tax on non-commercial professions.* The ratio of this tax is similar to the one mentioned above,—namely, twelve per cent of the taxable amount up to 50,000 francs and fifteen per cent on amounts above this figure.

5. *General Income Tax.* The general income tax is calculated on the figures declared by the taxpayer in any of the above-mentioned categories and is actually an additional tax. For example, a person earning a salary of 50,000 francs is required not only to pay the tax due on such a salary under Section 3 above, but is also subject to the general income tax on the same amount.

Below is given an illustration of the amount of tax to be paid for incomes between 10,000 and 50,000 francs. To compute the total amount of tax due by a salaried taxpayer these figures should be added to those given under Section 3. Thus a salaried person with an income of \$2,000 would be required to pay a total tax of \$197.04. This also holds in the case of a business man or professional man.

GENERAL INCOME TAX		
Income		Amount of Tax
Fr. 10,000 (\$ 400)	Frts. 36	(\$ 1.44)
" 20,000 (\$ 800)	" 156	(\$ 6.64)
" 30,000 (\$1200)	" 396	(\$15.84)
" 40,000 (\$1600)	" 756	(\$30.24)
" 50,000 (\$2000)	" 1,236	(\$49.44)

DISTRIBUTION OF THE STATE INCOME

How the State income derived from these taxes is spent is shown in the following summary of the principal categories of expenditures:

1. 15,000 millions for the debt service;
2. 5,200 millions for the interest and amortization carried out by the Autonomous Fund;
3. 7,500 millions for the *dette viagère* (civil and military pensions) of which some 5,000 millions go to pensions for war victims;
4. 500 millions for care of and advances to the same victims;
5. 8,000 millions for government personnel, excluding the railways;
6. 7,600 millions for military expenses other than the career officials;
7. 73 millions for the public authorities (President of the Republic, Chamber and Senate);
8. 4,800 millions for civil expenses, of which 340 millions are for new works;
9. 900 millions for relief and social welfare;
10. 28 millions for international expenses.

Thus, of each 100 francs paid in taxes to the state by French citizens, 41.50 francs are for the public debt and its redemption; 16.44 for civil and military pensions; 16.44 for the civil and military employees of the government; 15.61 for the expenses for national defense; 0.15 for the public authorities; 9.86 for civil expenses, of which 0.70 are for new works; 1.85 for relief and social welfare, and 0.06 for international expenses.

In 1913 the French public debt and pensions consumed 26.6 per cent of the entire budget; in 1926 the proportion was 54.6—a 50 per cent increase. Although the burden of military expenditures in France has frequently been commented upon abroad, defense requirements have met with little opposition at home. The building programs of the Ministry of Marine have caused no protest, and the army has been left at a level which is generally regarded as the minimum investment in security—an army of 523,769 men at present, as compared with 900,000 men under arms in 1914.

ADMINISTRATIVE ECONOMIES

The government next attempted to bring about sweeping economies in administration. Of the 359 local courts, 227 were suppressed, leading to a reduction of judges and clerks by 663; 218 local prisons were closed, abolishing 275 more positions of government employment; 153 local treasury offices were also suppressed.²⁰

The government likewise abolished 106 out of the 274 sub-prefectures, as well as the 86 councils of prefecture, transferring their work elsewhere.²¹

Similarly, the Ministry of War brought about the reduction of 2,700 army officers, suppressed the Army Remount Department, and sold 9,000 horses. It also transferred 350 barracks to the Departments and cities.²²

Besides questions of taxation and administrative economy there existed the pressing question of debt reduction.

Before the war France had no external debt, though her internal debt amounted to 27,704 million gold francs. After the war, in 1919, the total debt stood at 213,632 million francs, and at the end of 1926 it totalled 338,143 million francs. The lower the franc falls, the easier it is for the government to meet debt charges. (Germany rid herself altogether of her internal debt by inflation.) Inversely, the greater the deflation the more difficult debt charges become.

REDUCTION OF THE DEBT

Upon becoming head of the government, M. Poincaré immediately gave his attention to the debt problem. A law of August 7, 1927 established an Autonomous Fund, securing from the Tobacco Monopoly and other sources its revenues for application against the floating debt. In October, 1926, the Fund issued a consolidation loan in the form of bonds repayable in 40 years.²³

(20) *Journal Officiel*, September 7, 1926, p. 10027.

(21) *Le Temps*, September 12, 1926.

(22) *Le Temps*, September 13, 1926.

(23) This was the first successful government long-term internal loan in nearly four years. See de Sanchez, J. A. M., *Year of Poincaré*, (Foreign Affairs, October, 1927, p. 43.)

The Fund Commission has reduced the interest rate on short-time bills in some cases from six per cent to three per cent, and has retired six-month and one-year bonds.²⁴ During the year 1927-28 a total of 16,000 million francs of short-term obligations were consolidated in the form of ten and fifty-year bonds. Partly by means of consolidated loans, the State debt to the Bank

of France, which on August 1, 1926 stood at 37,450 millions francs, was reduced to 24,500 million francs by September 1, 1927. In 1927 the French Treasury and Bank of France made a large payment upon a debt to the Bank of England.

The state of the commercial debt of the French Government in 1926, 1927, and 1928 may be seen from the following table:

COMMERCIAL DEBTS OF THE FRENCH GOVERNMENT, 1926-28

Nature of Debts		Total	Presumed total	Presumed total
		capital on January 1, 1926	capital on January 1, 1927	capital on January 1, 1928
United States loan of 1920	Dollars	78,184,800	74,184,800	70,184,800
United States loan of 1921	Dollars	65,299,900	60,822,100	60,805,500
United States loan of 1924	Dollars	95,367,800	90,692,600	86,580,900
Loan contracted by the cities of Lyons, Bordeaux, Marseilles	Dollars	40,586,000	45,000,000	45,000,000
Balance of the Anglo-French loan	Dollars	13,850	13,850	13,850
Balance of the 5½% United States loan	Dollars	2,110,000	2,110,000	2,110,000
Argentine credit	Argentine pesos	19,425,795	18,463,996	18,463,996
Uruguayan credit	Uruguayan pesos	9,000,000	6,000,000	3,000,000
Dutch credit	Florins	55,000,000	55,000,000	
Canadian credit	Canadian Dollars	230,000		
Egyptian credit	Egyptian pounds	1,000,000		
English stocks	Pounds	4,500,000	3,250,000	2,250,000
Treasury bonds issued in England	Pounds	5,955,000	6,000,000	
Loan of the Commission for evaluation of damages in Turkey	Dollars	5,000,000	5,000,000	
Bank of England	Pounds	44,000,000	37,000,000	
American stocks	Dollars	407,341,145		407,341,145*

*European Economic and Political Survey. October 31, 1927,
p. 116.

The Poincaré government is thus taking serious steps to reduce the internal debt in France and its commercial debt abroad. By postponing the maturity of obligations and by reducing the cost of the debt service, the government has reduced the drain on the budget. The importance of bringing about a reduction is shown by the fact that about half of the French budget is devoted to debt and pension charges. Some of M. Poincaré's opponents believe, however, that he has gone too far in imposing the obligations of this debt upon the present generation.²⁵

It is precisely the question of amortization of the debt that promises to give a basis of opposition to the Poincaré government in the coming elections. M. Caillaux, former Minister of Finance, is among those who have

advanced the thesis that, if the sums allotted to amortization of the debt are decreased, taxes will not be so heavy. Already various Socialist deputies have taken up the cry that the government, by providing 9,000 million francs a year for amortization purposes, is condemning the present generation to restrict its production and consumption and to work without profit.

M. Poincaré is firmly opposed to this shifting of the debt burden. In the debate in the Chamber of Deputies on February 2, 1928, he declared that "not only is amortization the sure sign of financial restoration, but the indispensable element thereof."

THE WAR DEBTS LINKED
WITH REPARATIONS

While he has worked to reduce the internal debt, M. Poincaré has not taken any steps to bring about the ratification of agreements in regard to the War Debts made by the French Government with the United States and Great Britain. The agreements have not been placed before the French

(24) The various measures are listed in M. Poincaré's statement to the Chamber on the 1928 budget, summarized in the European Economic and Political Survey, July 15, 1927, p. 693.

(25) Some opponents have criticized a number of loans made by M. Poincaré, such as the loan in favor of the International Match Corporation, on the ground that "il vend la France en détail à l'oligarchie internationale," (it betrays France piece-meal to an international oligarchy). R. Mennevée, *La Vérité sur les Emprunts de M. Poincaré*. (Les Documents Politiques, November, 1927.)

Chamber of Deputies for action and there appears to be little possibility that such a step will be taken in the near future.^{25a}

In the debate in the Chamber of Deputies on January 27, 1928, M. Garchery stated that "in their main lines, the programs of Poincaré and Caillaux run together." M. Poincaré, denying this contention, asked, "Have I proposed ratification of the debt agreements and immediate stabilization?"

In a speech at Carcassonne, on April 1, 1928, M. Poincaré stated that, with the forthcoming annuity payment under the Dawes plan, the question would arise whether the railroad and industrial bonds provided under the plan should be placed on the market. "Under reserve of our security and our right to reparations we will willingly accept, when the time comes, arrangements which by placing these bonds will enable our former Allies, Germany and ourselves to get rid of our debts more rapidly."^{25b}

It is apparently the intention of the government, therefore, to link the questions of debts and reparations together.

The policy pursued by the French Government in this respect is briefly as follows: It holds that it cannot affix its signature to a sixty-year agreement the terms of which in a few years may prove impossible of fulfillment. Very few important treaties, such as those of alliance, are concluded for a longer period than five years. They are renewed periodically. The government may continue the present system of payments under an unratified agreement, or it may desire to conclude short-term agreements providing for the liquidation of a certain part of the debt, say in a five-year period, followed by periodic supplementary agreements for further liquidation thereafter. No party favors payment under the present terms, and the question does not appear to be figuring in the elections.

The ban which the State Department has imposed on the flotation of French loans in the United States seems to have had little effect toward bringing about ratification of

(25a) In March, 1928, the French Government signed an agreement with the Rumanian Government in which Rumania promised to pay in 62 annuities the debt contracted during the war, which amounts to about 525,000,000 gold francs. The present value of this amount is placed at 185,000,000 francs. *Le Temps*, March 29, 1928, p. 6.

(25b) *New York Times*, April 2, 1928, p. 1.

the debt agreement.²⁶ Recent French issues have been heavily oversubscribed, particularly in Switzerland and the Netherlands, and French securities are regarded as among the safest securities on the market today. Whereas some countries, such as Belgium, Italy and Poland, required American loans and central bank credits in order to carry out stabilization, France has been able to build up her own reserves during the last year without this kind of aid. In comparison with other governments the French Government has no need of American credits.

POINCARE POLICY RESTORES FINANCIAL CONFIDENCE

As a result of the policy of the Poincaré government and of the French Parliament since July, 1926, the budget has been balanced by means of increased taxes, administrative economies and consolidation of the debt; moreover, the value of the franc has been increased from 248 per pound to 124.2. The policy of the government has been to restore confidence in the future of France among the larger part of the French public.

The budget of 1926, the first to be balanced since 1913, gave to the government a real surplus of about one and a half billion francs. The 1927 budget produced a similar surplus, which was applied to debt amortization. The original budget proposal for 1928, placed before the Chamber in June, 1927, provided for a surplus of about 633 million francs. But Parliament cut down these figures so that the estimated excess of revenue for 1928 was 51,667,416 francs.

The surplus originally contemplated may, however, be realized because the receipts from indirect taxation are much greater than had been estimated. For the first two months of 1928 actual receipts have been nearly 342,000,000 francs

(26) The failure of the policy may possibly explain the action of the State Department when the French Government late in 1927 undertook to refund a loan on the New York market at a reduced rate of interest. The Department of State at that time issued a press release, dated December 10, 1927, worded as follows:

"The Department of State has informed the French Embassy that, if and when a proposition is made by the bankers, the Government of the United States will offer no objection to the refunding at a lower rate of interest of the still outstanding bonds of the 1920 8 per cent French loan. This refunding transaction involves no advance of new money to France."

This statement was followed on January 13, 1928 by an announcement on behalf of the Department of State raising the ban on the flotation of French industrial issues in the United States.

greater than the original estimates upon which the budget is based.^{26a}

During 1927 French currency was maintained by the Bank of France along with that of several countries which had adopted the gold standard.

The balance sheet of the Bank of France on December 30, 1926, and December 29, 1927, indicates the progress that has been made in one year. At the end of 1926 the bank had just begun to purchase foreign currencies in order to maintain the value of the franc. The item "Miscellaneous" on the credit side amounted to only 4,500 million francs. Advances to the State amounted to 36,000 millions, while the credit opened to industry and trade totalled 6,500 million francs.

At the end of 1927, advances to the State amounted to only 24,500 millions, which meant that 11,500 million francs had been redeemed by the State treasury in one year. The "Miscellaneous" item, on the other hand, had risen to 26,500 million francs, corresponding to the purchase of a total of 800 million dollars. Credit opened to industry and commerce amounted to only 3,800 millions, despite the decrease from 6½ per cent to 4 per cent and later 3½ per cent in the discount rate.

The fact that France is expected to return to the gold standard soon gives added significance to the metallic reserves of the Bank of France. The table below gives the comparative metallic reserves for 1913 and the period 1924-1927.

FRENCH GOLD AND SILVER RESERVES (In millions of francs)				
	Dec. 1913	Dec. 1924	Dec. 1925	Dec. 1926
Gold at the bank	3,517	3,681	3,684	3,684
Gold abroad		1,864	1,864	1,864
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	3,517	5,545	5,548	5,548
Silver	640	306	320	340
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	4,157	5,851	5,868	5,888
				5,885

So far, however, the Poincaré government has not brought about the legal stabilization of the franc.

"You know very well," said M. Poincaré in the Chamber of Deputies on December 10, 1927, "that we are in a difficult financial situation, that we are on the eve of important monetary operations that are inevitable. Whatever may be the solution adopted, we shall not remain forever with a money that is not convertible into gold. . . You know well that an operation of this sort is not performed without need of an absolute monetary, financial, and economic security, not for three months, for six months, or even for a year, but for several years."

In other words, the Poincaré government wishes to approach the period when stabilization will be effected. The important monetary operations that have been carried out, and which are still in progress, have consisted in the *de facto* stabilization of the franc at 25.45 to the dollar since the end of

1926, through the building up of a gold reserve abroad estimated at 1,250 million dollars. The Bank of France now has in its vaults over 700 million dollars' worth of gold. In July, 1927, the French Government removed certain restrictions upon the export of capital.²⁷ In 1928 it abolished them altogether. This step has been hailed as a symptom of the consolidation of the franc and a generally improved financial condition.²⁸ But since confidence in the franc prevails, there is little desire to send money out of the country. One evidence of this is the increase of deposits in savings banks. For the first ten months of 1927 such deposits exceeded withdrawals by 3,630 million francs.

It seems that France will be the last great country to stabilize her currency. Apparently the reason is that, unlike countries depending on foreign trade, France is relatively self-sufficient and hence not subjected to foreign pressure.

(27) *Le Temps*, July 24, 1927.

(28) Auboin. *Le retour d'exportation des capitaux*. (L'Europe Nouvelle. January 14, 1928.)

(26a) *Le Temps, Economique et Financier*, March 26, 1928.

The Poincaré government apparently intends to bring about the *de jure* stabilization of the franc after the April elections. The change will then occur immediately, it is supposed, provided, of course, that a Chamber pledged to Poincaré is elected.

In the financial debate in the Chamber of Deputies on February 2, 1928, M. Poincaré summed up the general aspects of the monetary problem. "The total revalorization of the franc," he noted, "would demand a great number of years and would entail a series of difficult problems. A partial revalorization would also entail serious economic and budgetary problems and successive readaptations. Almost immediately the coefficient 5 would have to be applied to all budgetary expenditures. The bondholders (*rentiers*) would rightly protest. . . They would ask for compensations. . . According to M. Jèze, new and considerable taxes would have to be put into force to give them satisfaction. All these demands would necessarily have a harmful repercussion on the budgetary equilibrium, and should such equilibrium be destroyed, stability would be threatened and everything would have to be done over."

ADVANCEMENT OF SOCIAL WELFARE

While the government has brought about a radical improvement in the financial situation, it has not, according to its spokesmen, neglected other aspects of public welfare. In his Bordeaux speech, M. Poincaré declared that the tariff had been amended to insure a higher degree of pro-

tection to agriculture and industry, while the government had signed economic agreements with Germany, Italy, Switzerland, and Belgium.

In order to aid the agricultural population he had increased by more than 150 millions the credits of the Ministry of Agriculture, developed collective methods of fighting plant parasites, increased the annual subsidy to the groups working for the electrification of the country from 60 to 100 million francs and taken other steps. He had accelerated the work of reconstruction which he believed would be completed in the coming year. Between August 1, 1926 and January 1, 1928, he had increased pensions to crippled soldiers to the extent of 986 million francs. Likewise, under the direction of M. Tardieu, a program of public works had been carried out. Railways were being electrified, routes and ports were being improved. Appropriations for social welfare—such as the protection of children and subsidies to large families and tuberculosis sanitaria—had been increased. Parliament had just voted a vast scheme of social insurance. It had also adopted measures reorganizing the army and providing for the reduction (soon to take place) of compulsory military service to a period of one year, in comparison with three years at the outbreak of the World War.^{28a}

The main question in the forthcoming election seems to be whether the people believe that the personal sacrifice imposed by the present tax and debt policy is too heavy for them to bear.

APPENDIX I

Summary of the French Economic Situation in 1927 as given in the Annual Report of the Bank of France

During the past year, the economic situation adapted itself to the new conditions created by the monetary problem. Such adaptation, carried out with all necessary caution by all elements of national economy, prevented any excessive repercussion. It was facilitated by the stability of our rate of exchange since the end of 1926.

Furthermore, the considerable increase of industrial exports contributed to guarantee the normal functioning of industrial enterprises.

The index of wholesale prices, which was 640 at the beginning of January, 1927, remained stable during the first six months of the year and stood

at 636 in June. As a result of the decrease in the price of agricultural products, however, it became lower during the summer and went down to 617 at the end of December.

The retail price index was always under the wholesale price index. From a figure near 600 at the end of 1926, it went down progressively to 589 in May, 532 in September, and 523 at the end of December, or a difference of 77 points when compared with the figure for the same date the preceding year.

^(28a) The full text of the Bordeaux speech is published in *Le Temps*, March 26, 1928.

Harvests have been favored this year by a considerable increase in the production of cereals, which attained 77 million quintals of wheat, or a 14 million quintal increase over 1926.

The same is true with regard to sugar. From all estimates this year can be considered as the best one since the war and will show a 20 per cent increase in production over 1926-1927.

The output of our vineyards, although showing an increase over the preceding year, remains nevertheless far under the 1925 figure.

Industrial activity remains about the same as during the years 1924 and 1925 but does not reach the high 1926 level.

With a total of 53 million tons the output of coal mines shows a very slight decrease over last year.

The production of iron and steel is also slightly under 1926.

A great activity is reported in the textile industry so far as spinning is concerned, such products having been in wide demand for export purposes.

Manufactured cloth suffered from restricted consumption.

As to commercial activities, there has been a general decline on the internal markets. The daily average of rail transport attained only 60,500 cars during the first eleven months of 1927 as compared with 64,500 cars during the same period in 1926.

The net tonnage carried by ships entering and leaving French ports amounted to 83,450,000 tons during the first eleven months of 1927 or an increase of 8 million tons over the preceding year.

Foreign trade for the entire year showed an increase over 1926. Imports attained 49,359,000 tons, while exports amounted to 38,057,000, showing an increase over last year of 3,965,000 tons for the former and of 5,502,000 tons for the latter.

The revalorization of the French money during 1927 brought about a considerable reduction of the franc value of both imports and exports as compared with 1926.

Our commercial balance, which was almost exact in 1926, now shows a credit of nearly 2,500 million francs. The figure shows the vitality of our foreign trade.

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